

Date of Meeting: July 3, 2007

**BOARD OF SUPERVISORS  
FINANCE/GOVERNMENT SERVICES COMMITTEE**

**#4**

**INFORMATION ITEM**

**SUBJECT:** Potential Funding for Potomac Farms Water Infrastructure

**ELECTION DISTRICT:** Broad Run

**BACKGROUND:** Supervisor Waters presented a Board Member Initiative at the May 15, 2007 Board Meeting in which the Board took action to instruct staff, in coordination with the Loudoun County Sanitation Authority (LCSA), to review an option to use tax incremental financing (TIF) as the sole source to fund the Potomac Farms utility improvements and present information at the June 5, 2007 Finance/Government Services Committee. In addition, staff was directed to include within the capture area for the TIF the residential properties as well as the adjoining commercial properties at the Potomac Farms Business Park and University Center.

County staff subsequently met with LCSA staff to review the scope of the Potomac Farms infrastructure needs, proposed solutions and estimated costs. In addition, the residential and commercial lots were tentatively identified for service area definition and incremental tax financing (TIF) analysis. Staff reported upon the initial discussions at the June 5, 2007 Finance/Government Services Committee meeting.

To reiterate from the last item, the staffs from LCSA and the County verified that:

1. The infrastructure need for the Potomac Farms Subdivision is limited to public water infrastructure. Sewer infrastructure is available in the Potomac Farms Subdivision for the residential users and the commercial properties have plans to extend water and sewer infrastructure to their properties. The University Center development has proffered to provide water and sewer to their lots, running along the Route 7 frontage.
2. In case of an urgent need for support, LCSA has developed a temporary engineering solution to provide public water to the residential lots served by the private water system with a cost estimate of \$100,000.
3. As a long-term solution to the problem, LCSA has developed a cost estimate to provide permanent new water infrastructure to the Potomac Farms Subdivision as follows:

a. Engineering/Design/Project Management	\$ 980,000
b. Construction	\$1,850,000
c. Availability/connection/Meter Fees	\$ 630,000
d. Service Lines/Connections	\$ 200,000
e. Paving Contingency	<u>\$ 240,000</u>
f. Total Estimate	\$3,900,000

Just prior to the June 5<sup>th</sup> meeting, the Virginia Department of Health, Office of Drinking Water issued a Notice of Violation on May 24, 2007 to the owner of the Potomac Farms water system. The notice stated that the system exceeds the permitted design capacity of the system. The Waterworks Operation Permit, effective November 6, 1992, permits a design capacity of 33 residential connections. As of April 2003, the waterworks system was serving 46 residential connections. The owner was given thirty (30) days to address the cited deficiencies. Any residential lot owner seeking to build may not be able to obtain a building permit if they require water service other than a well. The Loudoun County Health Department continues to monitor this issue.

Staffs from the Department of Management and Financial Services and the County Assessor's Office have examined residential and commercial lot data in order to provide analysis of Tax Increment Financing, or other financing options for the new water infrastructure.

## **ISSUES:**

Staff cannot recommend the use of a TIF district as the sole source of financing for this project. There are both financial and policy limitations applicable to such a sole source solution.

### Policy and Practice Concerns

1. The County has established service districts for water/wastewater improvements over the last 20 years. The three largest projects (Broad Run Farms, Hamilton and Aldie) have all been a combination of County General Fund subsidy (either directly or indirectly) and Special Assessment taxes levied upon the properties benefiting from the improvement. (14, 30 and 27 cents tax rates, respectively) While a TIF district was used as a portion of the financing solution for the Broad Run Farms Sewer District project, it was, initially, only a minor source for the project. Financing costs were shared by both the property owners and all County taxpayers.

2. As the attached memo from the County Attorney outlines, TIF districts are largely used for areas that are either currently 'blighted' or in danger of becoming so. The theory behind such a district is that the improvement to be financed will create additional property value over future years that would not occur without the development. Under such a scenario, a TIF "carves out" the property tax growth from the affected properties and uses that growth to pay for the improvement, rather than allowing those tax revenues to go into the General Fund. Theoretically, there is no real loss of revenue, in that, in the absence of the improvement there would be no such increase in value. Including properties outside of the service delivery areas

that will not receive any direct benefit, nor any increase in value from the improvement, simply increases the County subsidy from the General Fund.

### Financial Concerns

- 1 While Staff is appreciative of the efforts of LCSA staff to find a creative solution to the infrastructure needs of this community, the underlying financial assumptions of the analysis provided to Supervisor Waters are overly aggressive. The properties directly affected by the proposed water improvements are unlikely to generate sufficient growth in value to fund the improvement. The roughly 140 (half of whom contain structural improvements) current parcels have a Tax Year 2007 assessed value of \$58,687,000. If all of the undeveloped properties were to eventually build out at the current value of improved properties in the development area, then a TIF on that value increase would support roughly 80 percent of the annual debt service costs of the improvements. Since that development would take years (maybe decades), the development potential alone is insufficient upon which to base such a potential debt payment.
- 2 While the Broad Run Farms district debt was retired years ahead of schedule because of the success of its TIF component, the growth in TIF revenues was reflective of the incredibly rapid rise of home values over the last decade. Such growth in assessment is not currently forecast for the next period of years. The County's Fiscal Impact Committee has forecast real property appreciation at barely over inflation for the next 10 years and perhaps longer.

In light of the policy, practice and financial concerns listed, Staff would recommend examining a financing plan similar to that used in other improvement districts. That could be a combination of Special Assessment and TIF financing structures. A combination of the two could, over time, provide sufficient revenue to fund the improvements.

### **Attachments:**

Attachment 1: Finance/Government Service Committee Item, June 5, 2007

Attachment 2: Tax Increment Financing Memo from County Attorney

### **STAFF CONTACTS:**

Paul Brown, Assistant to the County Administrator

Jack Roberts, County Attorney

Ben Mays, Deputy CFO

Todd Kaufman, County Assessor